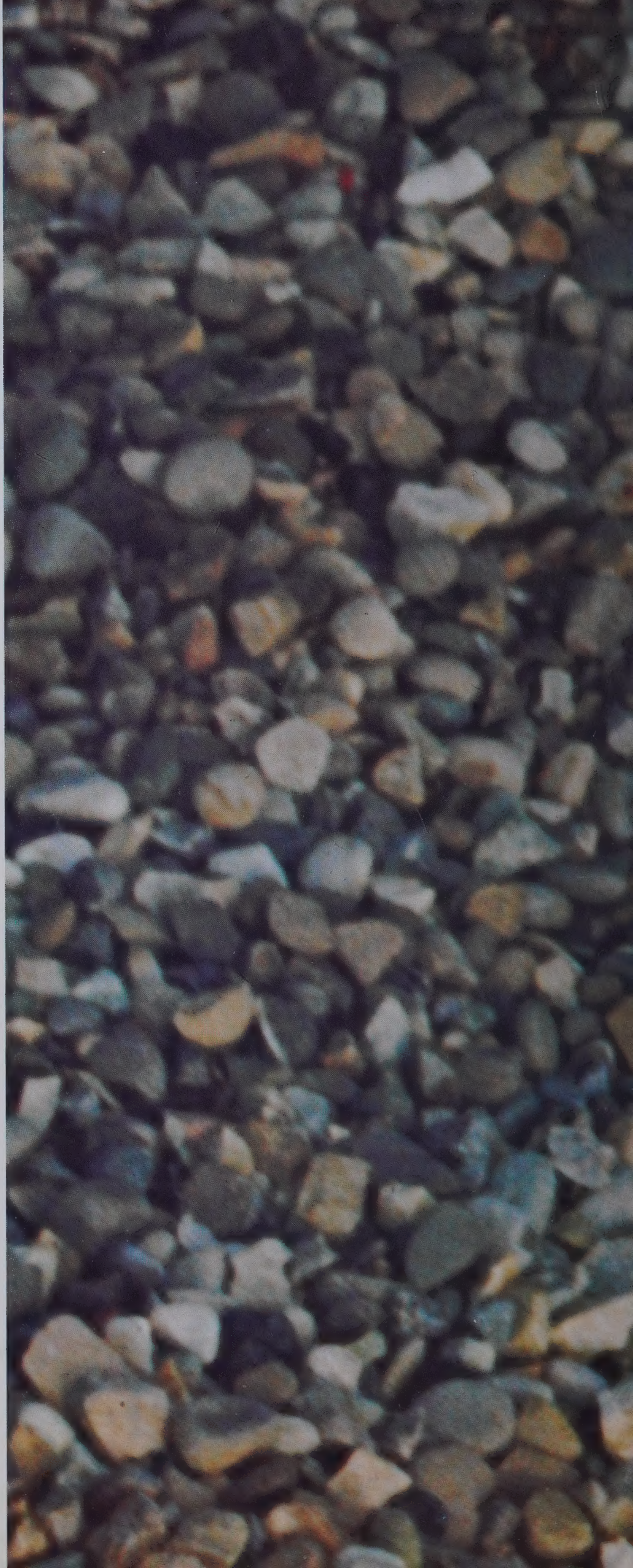
Norcen
Annual Report 1979

Norcen Energy Resources Limited is a 92% Canadian owned integrated energy resource company engaged in the exploration, production and transportation of oil and natural gas in Canada, and in the search for minerals in Canada and for hydrocarbons internationally. Through subsidiaries, Norcen operates natural gas distribution systems in Quebec, Ontario and Manitoba.



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Annual meeting

The annual and special meeting of shareholders will be held in Commerce Hall, Commerce Court West, King and Bay Streets, Toronto, Ontario, on Tuesday, April 22, 1980, at 10:00 a.m. local time. Shareholders are encouraged to attend the meeting, but those unable to do so, are asked to sign and return the form of proxy mailed with this report.

Highlights

Financial

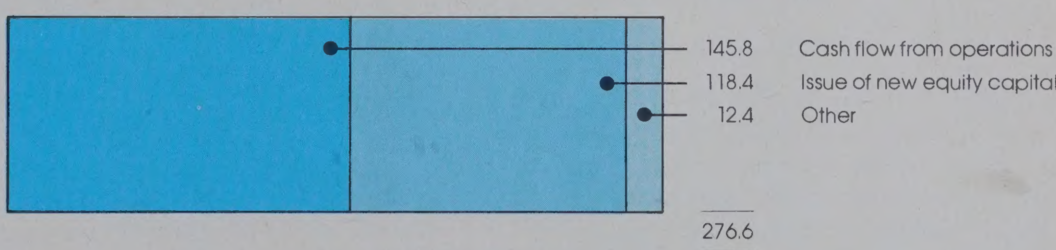
	1979	1978
(millions of dollars)		
Sales and other revenues	$ 887.3	$ 775.2
Cash flow from operations	145.8	100.5
Capital spending	199.0	91.6
Income applicable to common shares	63.1	42.5
Per common share (dollars)		
Earnings	2.70	1.86
Dividends	0.76	0.72
Market price		
High	34	19½
Low	16½	14⅝
Close	31⅞	18

Operating

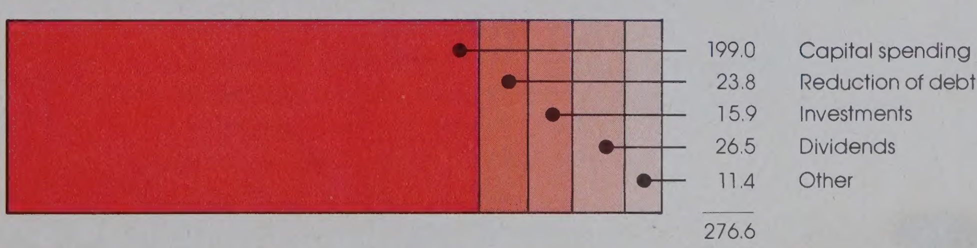
	1979	1978
Oil and gas production (daily average)		
Oil and gas liquids – thousands of barrels	26.0	23.2
Natural gas – millions of cubic feet	169.3	159.6
Gas utilities sales – billions of cubic feet	274.5	269.1
Oil and gas reserves (end of year)		
Oil and gas liquids – millions of barrels	129.0	117.3
Natural gas – billions of cubic feet	1,144.9	1,019.9

Source of funds

Millions of dollars



Application of funds



Report to the shareholders

Norcen Energy Resources Limited had an excellent year in 1979. Earnings and cash flow achieved the greatest year over year growth on record with the natural resource operations now contributing 75% of total income. Dividends were raised and the largest equity financing in the company's history, $110 million of convertible preference shares, achieved a stated objective of increasing equity capital to at least one-half of total capital employed. Crude oil and natural gas reserves were increased, and significant heavy oil reserves were acquired in the Lloydminster area.

Earnings

Continuing a trend of higher growth in earnings, income applicable to common shares for the year ended December 31, 1979 was up 48% to $63.1 million ($2.70 per share) from $42.5 million ($1.86 per share) in 1978. During the last seven years from 1972 to 1979, Norcen's earnings have grown at an average compounded annual rate of 24.5%. Sales and other revenues were $887.3 million compared with $775.2 million in 1978.

Natural resources

For the second successive year, Norcen's exploration activity added more crude oil than was produced and gas reserves were significantly increased through exploration and acquisitions. Crude oil reserves including synthetic crude and natural gas liquids were higher by 10% at 129.0 million barrels and natural gas reserves by 12% at 1,144.9 billion cubic feet.

One of Norcen's primary objectives has been to achieve a significant position in the Lloydminster type heavy oil reserves. This was accomplished in late 1979 and early 1980, with the acquisitions of Canadian Hidrogas Resources Ltd., and the Canadian assets of Tesoro Petroleum Corporation. The company now owns an important position in conventional heavy oil production with the potential of expanding production through enhanced recovery projects. In 1980, $17 million will be spent to raise production and within four to five years heavy oil is expected to make a very significant contribution to earnings.

In 1979 the National Energy Board authorized for export to the United States an additional 3.75 trillion cubic feet (Tcf) of natural gas. Progas Limited, of which Norcen is a sponsor, was granted an export licence for 0.6 Tcf to be delivered over a period of seven years. The Progas concept provides for short-term export to be followed by a long-term commitment of natural gas to eastern Canadian markets. Since the N.E.B decision, Progas has held discussions with another group associated with the Alaska Highway Pipeline Project in an effort to develop a plan which will ensure an early start to export shipments. Norcen continues its participation in these discussions which, it is hoped, will result in increased natural gas production in western Canada at an early date, which in turn will provide the cash flow for exploration and development of additional natural gas reserves.

Evaluation of the Blizzard uranium property in south central British Columbia has been suspended following an announcement on February 27, 1980 by the government of British Columbia which placed a moratorium on all uranium exploration and mining in that province. It is disappointing that this action was taken by the government before completion of its Royal Commission of Inquiry into Uranium Mining which would have established guidelines for uranium production. Norcen however will continue to investigate mineral prospects in Canada as part of its continuing energy diversification program.

Increased royalties from the Fort McMurray oil sands lease contributed significantly to resource earnings. Amounting to $17 million before taxes in 1979, these royalties are expected to

grow to approximately $30 million before taxes in 1980 and to further increase with higher world oil prices.

Gas utilities

The utilities recorded higher earnings in 1979 as a result of customer growth, favourable regulatory decisions and weather patterns. The hearings before the National Energy Board for approval to extend natural gas service from Montreal to Quebec City has concluded and a decision is expected in early spring, suggesting the possibility of completion of a transmission line to Trois Rivières by late fall of 1980. The Quebec Electricity and Gas Board is hearing applications for franchises to serve areas and communities along the route of the proposed pipeline. Gaz Métropolitain, Norcen's subsidiary in Quebec, with the experience gained through serving the greater Montreal market for more than twenty years has applied for franchises to serve all of these communities.

The trend towards residential and commercial conversions from fuel oil to natural gas experienced in other Canadian markets was also evident in the company's utility operations. During 1979, 10,400 customers were added, representing additional annual sales volume of 9.2 billion cubic feet.

Finance

A stated objective of achieving by the early 1980's a level of equity capital of at least one half of total capital, was in fact realized in 1979. New equity capital raised in 1979 totalled $120 million; $110 million through a most successful Norcen issue of $2.88 convertible preference shares, and a $10 million issue of 2 million common shares by Gaz Métropolitain. In September, Norcen's common share dividend was raised from 72¢ to 80¢ on an annual basis.

In order to place Gaz Métropolitain in a better position to actively assist in the desirable national objective of extending natural gas service east of Montreal, it is important that it be allowed to raise its own external capital requirements. Presently, these must be raised through Northern and Central Gas. Senior management of Norcen, Northern and Central Gas and Gaz Métropolitain have been active since late last fall seeking from holders of Northern and Central's securities consent to indenture amendments which will allow Gaz Métropolitain to raise its own external capital independently of Northern and Central. The reaction of the institutions approached has been favourable and it is probable that the indenture amendments will be approved by the end of March. At that time it is planned to offer to residents of the Province of Quebec a new issue of Northern and Central Gas debentures, which would be exchangeable into a part of Northern and Central's present share ownership of Gaz Métropolitain. This issue, along with the Gaz Métropolitain equity issue in 1979, will result in approximately 50% control of Gaz Métropolitain being in Quebec.

In December, Labrador Mining and Exploration Company Limited acquired in the open market 2,400,000 common shares of Norcen, and through a Stock Exchange offer completed on February 1, 1980 acquired an additional 7,243,250 shares to bring its percentage ownership of common stock to approximately 37%.

Capital expenditures

Capital expenditures in 1979 totalled $199 million of which $61 million was spent for resource exploration and development, $96 million for resource acquisitions and $42 million for gas utility facilities. Total capital expenditures in 1980 are expected to be $173 million of which $113 million will be used for natural resources and $60 million for utilities. In addition $31 million will be spent in

completing the acquisition of Canadian Hidrogas Resources Ltd. If the pipeline to Quebec City is commenced in 1980, utility expansion through Gaz Métropolitain will be increased considerably.

Directors and management

It is with great sadness that we record the passing in September 1979 of C. Spencer Clark, Ph.D., one of the founders of Northern and Central Gas and a former Chairman of that company. Dr. Clark was appointed a director and Vice-Chairman of Norcen Energy Resources Limited at the time of its formation in 1975. His devotion to the company over the years and his wise counsel earned him the respect of the directors and employees. He is missed by members of the board and his many friends.

We are pleased to welcome Mrs. Robert T. Sparrow of Calgary to the board. Mrs. Sparrow has been associated with the oil and gas industry for a number of years, has served on the board of directors of the University of Calgary and has been active in other community projects. She brings considerable experience to the board.

At the annual meeting this year, Mr. A. Searle Leach, O.C., will have reached retirement age and will not stand for re-election to the board. Mr. Leach has made a significant contribution to the affairs of the company as Chairman of Greater Winnipeg Gas, and as a director of Northern and Central Gas and Norcen.

We gratefully acknowledge our appreciation to Messrs. Raymond Lavoie, Henry S. Romaine, William I. M. Turner, Jr. and Adam H. Zimmerman, who will not be standing for re-election to the board of directors this year, for their wise and important contribution to the affairs of the company.

Outlook

1979 was an outstanding year for Norcen, with records being established in most sectors of the company. Your directors believe that 1980 will be another excellent year of growth, and see the healthy trend continuing through the decade.

The general outlook for the energy industry in Canada and for Norcen Energy Resources Limited in particular is excellent.

Norcen's natural resources sector will continue to be of increasing importance with earnings and cash flow achieving a much faster and greater rate of growth than that of other operations. This will result from rising world and domestic prices for conventional crude oil and natural gas, improved production rates, and significantly higher oil sands royalties, as well as from increasing heavy oil production from recently acquired properties. Further, we believe there will be a stabilization of energy policies in Canada to provide the necessary incentives for re-investment of cash flows to further develop Canada's energy resources, and to provide earnings that will attract investment capital needed to realize the country's energy objectives.

The continuing progress and achievements of your company are made possible only by the dedication, good judgement and the considerable effort on the part of Norcen's more than 3,000 men and women across Canada. To them we express our gratitude.

On behalf of the board.

E C Bovey

Edmund C. Bovey, Chairman

E. G. Battle

Edward G. Battle, President

February 29, 1980


ALBERTA
AND
BRITISH COLUMBIA
NORCEN LAND HOLDINGS
&
EXPLORATION ACTIVITY
100 Miles
160 km
ALBERTA
BRITISH
COLUMBIA
Dilly
Evie Lk.
Fort Nelson
Teepee Ck.
EAGLE
Fort St. John
Thunder
Grande Prairie
Gold Ck.
Golden
Fort McMurray
Rourke
Big Bend
Cherhill
EDMONTON
LLOYDMINSTER
BIGORAY
WEST PEMBINA
Bruce
Bittern Lk.
Hoadley
Ferrier
Compeer
Twining
CALGARY
Pageant
Long Coulee
Little Bow
Lethbridge
Kelowna
VANCOUVER

Natural resources

HIGHLIGHTS

- Natural resource operations continued to expand with gross capital expenditures of $ 166.8 million, an increase of 140% over the prior year.
- Oil and natural gas production rates increased.
- Reserves of oil and natural gas increased for the second consecutive year.
- Royalty revenue from the Athabasca oil sands lease increased to $ 17.2 million from $7.3 million in the previous year.
- Significant conventional heavy oil reserves were obtained through the acquisitions of Canadian Hidrogas Resources Ltd. and the Canadian assets of Tesoro Petroleum Corporation.
- The Canadian oil and gas properties of Shenandoah Oil Corporation and Miami Oil Company were acquired.

EXPLORATION

Canada

Oil and gas exploration expenditures in Canada amounted to $44 million and are anticipated to be approximately $58 million in 1980.

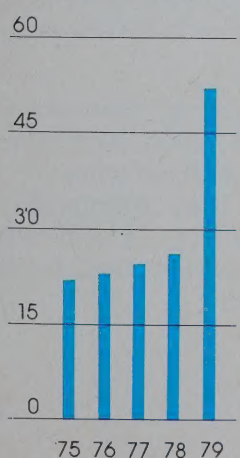
Canadian exploratory wells

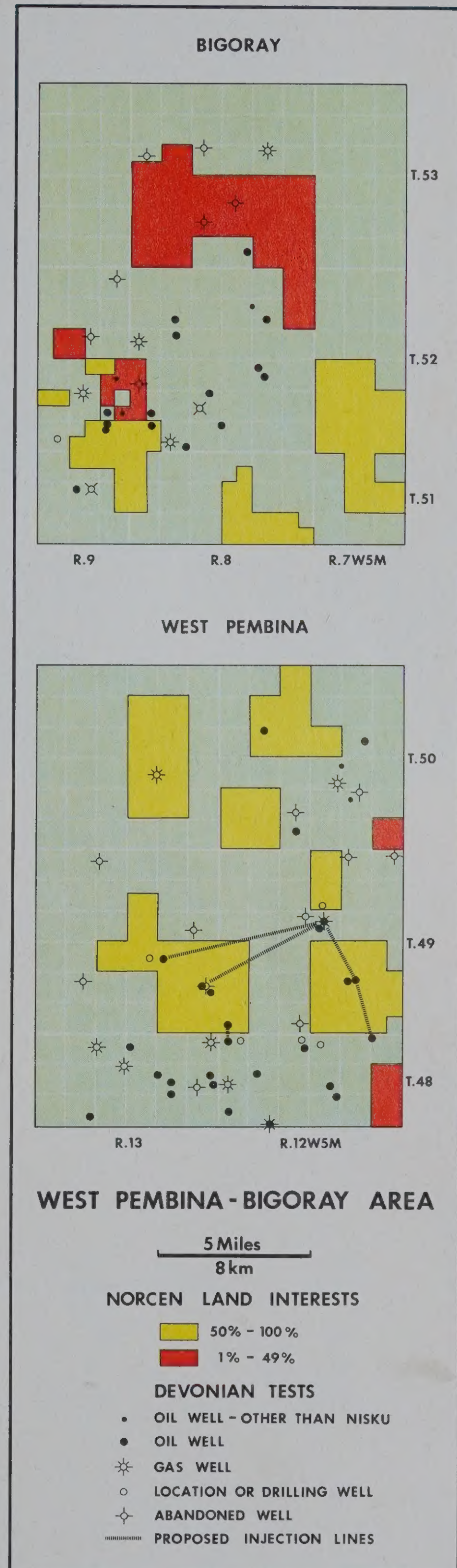
	1979		1978	
	gross	net	gross	net
Oil	34	14.7	18	8.7
Gas	98	15.5	45	10.1
Dry	59	23.3	79	33.7
	191	53.5	142	52.5

Western Canada was the centre of drilling activity with participation in 189 gross (52.9 net) exploratory wells drilled in 40 separate prospect areas. This activity resulted in 34 gross (14.7 net) oil wells and 98 gross (15.5 net) gas completions.

During 1979, Norcen participated in 12 significant new gas pool and 9 significant new oil pool discoveries. Net reserve additions from these successes more than replaced production during the year.

Natural resources income
(millions of dollars)





Exploratory drilling in the West Pembina-Bigoray area continued. To date, 6 Nisku oil and 1 gas-condensate new pool discoveries have been completed on acreage in which the company's interests range from 50% to 75%. Three additional wells are planned on Nisku prospects in this area in 1980.

In southern Alberta, the company's drilling program resulted in 15 oil wells and 6 gas completions. In central Alberta, in the Hoadley area, 3 gas wells were completed in the Glauconitic sandstone, and in northern Alberta, in the Golden-Cadotte-Seal area, drilling resulted in 2 oil wells and 1 gas well on company holdings.

In north-eastern British Columbia, in the Thunder area, the company participated in a 13,500 foot Triassic test which discovered natural gas in the Halfway sand. On production tests, the well flowed gas at 8 MMcf per day. Further drilling is planned for 1980.

In the Beaufort Sea, Norcen will participate in the drilling of the Issungnak prospect in 1980. The 14,000 foot test well will be drilled from an artificial island located about 6 miles north of Isserk, drilled in 1978. The company has a 4% interest in the project.

United States

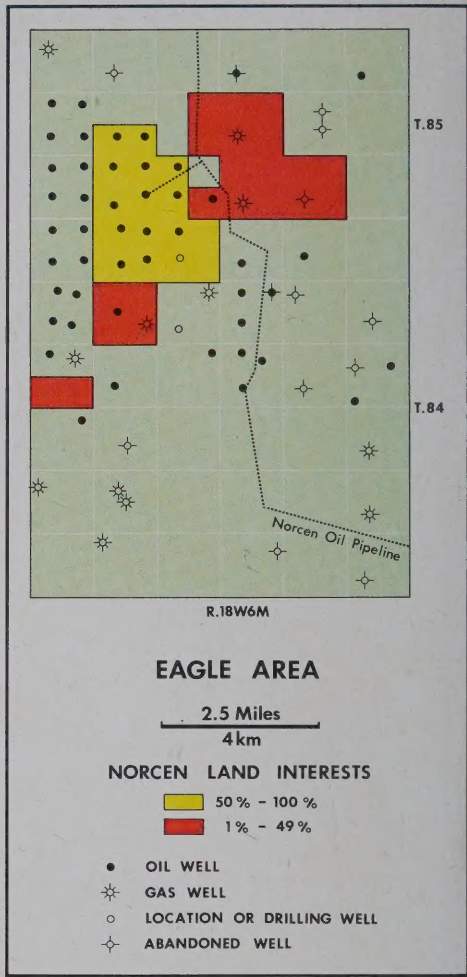
Norcen is increasing its oil and gas exploration activity in the United States. During the year, over 85,000 net acres of exploratory land was acquired in the Rocky Mountain regions of Colorado, Wyoming and New Mexico. The company participated in 2 successful step-out gas wells in south-eastern Colorado and further drilling is planned in 1980.

Properties located offshore Louisiana, in the Gulf of Mexico, in which the company holds a small interest, commenced production during the year.

Other international

During 1979, Norcen participated in the drilling of 3 unsuccessful exploratory wells; 1 located offshore Australia, 1 offshore Brazil and 1 drilled at no cost to the company on lands offshore Oman.

New permits were awarded to groups in which Norcen is a participant in Guyana and offshore Australia. Seismic surveys were conducted in Tunisia, Guyana, offshore Australia and in the recently awarded North Sea Block 20/2. Drilling will take place during 1980 in Tunisia, Australia and on North Sea Block 14/17.



Minerals

Norcen continued its program of exploration for minerals in various parts of Canada during the year. The program includes both base metal and uranium prospects.

Evaluation of the Blizzard uranium property in south central British Columbia which had continued during 1979, was suspended following the announcement by the government of the province in February 1980 of a 7 year moratorium on uranium exploration in the province.

Land

Oil and gas land holdings at December 31, 1979 totalled 5.6 million net acres in Canada and 3.2 million net acres in international areas. The company also owns 159 thousand net acres of mineral rights and 64 thousand net acres of coal rights.

Oil and gas land holdings
(thousands of acres)
December 31, 1979

	Leases		Reservations, permits, concessions and licences		Total	
	gross	net	gross	net	gross	net
CANADA						
Alberta	7,264	2,114	930	356	8,194	2,470
British Columbia	1,230	212	379	130	1,609	342
Saskatchewan	299	118	5	1	304	119
Manitoba	73	21			73	21
Ontario	4	2	2	2	6	4
CANADIAN FRONTIER						
Arctic	103	3	5,292	1,183	5,395	1,186
Beaufort Sea	35	3	2,683	575	2,718	578
Yukon	38	3	1,707	655	1,745	658
North West Territories	212	48	155	32	367	80
Offshore East Coast	54	4	587	90	641	94
	9,312	2,528	11,740	3,024	21,052	5,552
INTERNATIONAL						
United States	357	89			357	89
North Sea (U.K.)	221	32			221	32
Adriatic Sea			19	10	19	10
Guyana			2,137	534	2,137	534
Oman	6,383	947			6,383	947
Tunisia	2,719	417			2,719	417
Australia			6,890	1,126	6,890	1,126
Brazil			754	75	754	75
	9,680	1,485	9,800	1,745	19,480	3,230
	18,992	4,013	21,540	4,769	40,532	8,782

In addition to the above, royalty interests are held in 2,055 thousand gross acres and net carried interests in 265 thousand gross (20 thousand net) acres.

DEVELOPMENT AND PRODUCTION

Development

During the year, Norcen participated in 103 development wells resulting in 58 gross (17.8 net) gas and 37 gross (15.8 net) oil wells. Expenditures of approximately $9.3 million were made to maintain production from existing oil and gas fields and a further $7.6 million to develop reserves not previously connected to market.

In north-eastern British Columbia the limits of the Eagle field were extended by the drilling of 8 oil wells in which Norcen has interests averaging 63%. Production allowables for these wells average 129 barrels of oil per day. A connection to the company's crude oil transmission pipeline was completed early in the year.

In the West Pembina area, pressure maintenance of 3 Nisku oil pools and cycling of gas to obtain condensate production from a fourth pool is expected to more than triple Norcen's oil and gas liquids production from the area by 1983. In addition, a Nisku oil pool development well was drilled and a second started drilling by year-end, in both of which the company has a 50% interest. In the Bigoray area, 1 Nisku development well, in which Norcen has a 75% interest, was drilled and is awaiting completion. Waterflooding, currently in the planning stage, is expected to double the Bigoray production.

Canadian development wells

	1979		1978	
	gross	net	gross	net
Oil	37	15.8	28	9.5
Gas	58	17.8	38	10.1
Dry	8	4.9	2	0.4
	103	38.5	68	20.0

Production

Crude oil, synthetic crude oil and gas liquids

Average daily production before royalties was 26,000 barrels compared with 23,200 barrels in 1978, an increase of 12%. This increase resulted from development of the Eagle and West Pembina fields and higher demand which more than offset declines in older fields.

The price of western Canadian crude oil increased by $1.00 per barrel on July 1, 1979, and Norcen's share of synthetic oil production from the Athabasca oil sands plant received world oil prices from April 1979. The average price received by the company for crude oil production was $12.84 per barrel compared with $11.67 in 1978.

Natural gas

Gas production before royalties averaged 169.3 MMcf per day compared with 159.6 MMcf per day in 1978, a gain of 6%. This increase was primarily due to an acquisition early in 1979 and higher demand for natural gas.

As a result of price increases on February 1 and August 1, 1979 and significant increases in export price adjustments during the year, the average price received by the company for gas sold was $1.59 compared with $1.31 per Mcf in the preceding year.

Crude oil, synthetic crude and gas liquids production
(barrels per day before royalties)

	1979	1978
Alberta		
Crude oil	17,225	15,666
Synthetic crude	2,161	1,553
Gas liquids	3,330	2,973
	22,716	20,192
British Columbia	1,144	638
Saskatchewan	2,092	2,357
	25,952	23,187

Natural gas production
(MMcf per day before royalties)

	1979	1978
Alberta	158.2	151.1
British Columbia	11.1	8.5
	169.3	159.6

Acquisitions

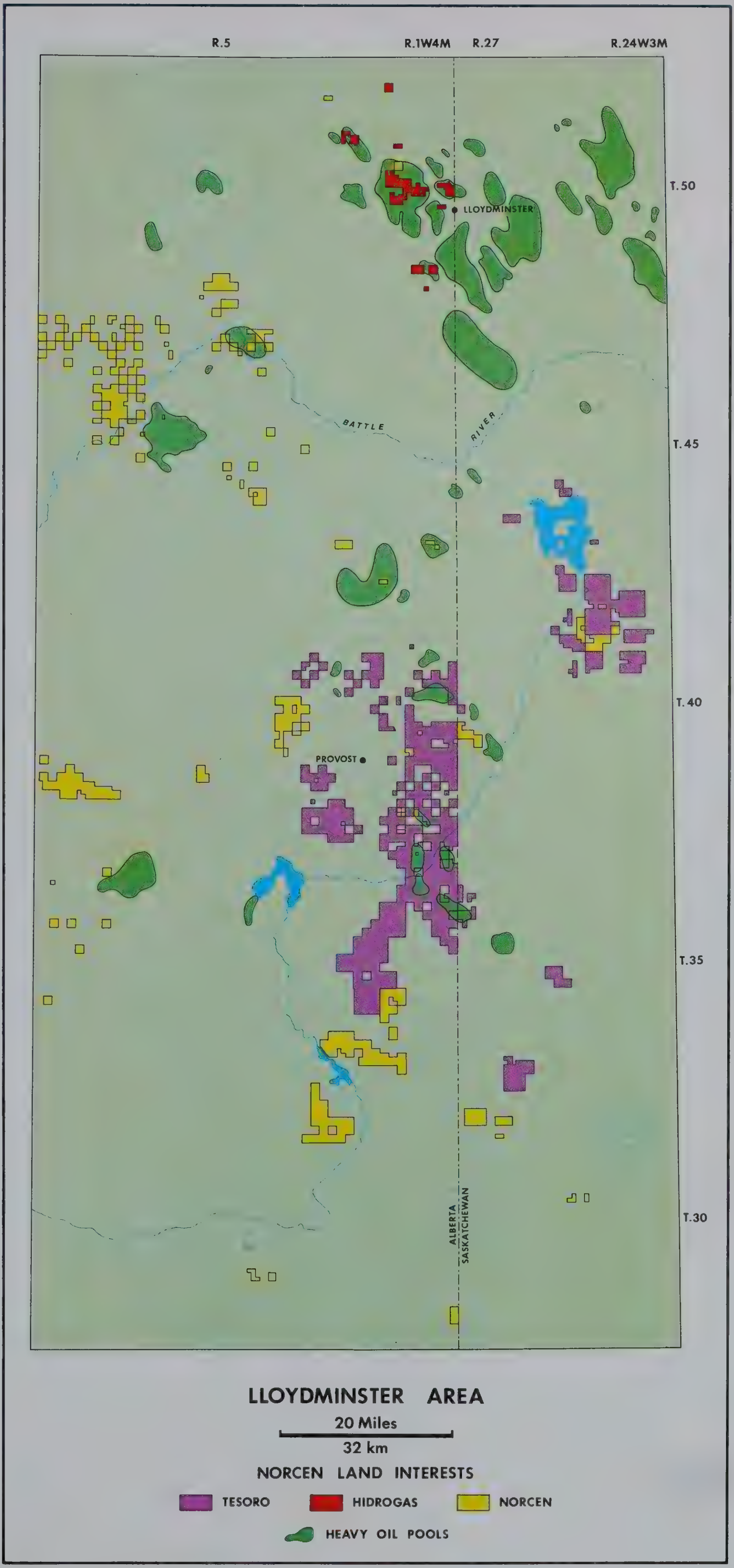
During the year, the company spent $85.7 million for oil and gas reserves and asset acquisitions. Early in the year, Norcen and a subsidiary each acquired a 25% interest in the Canadian oil and gas assets of Shenandoah Oil Corporation. This was followed soon after with the acquisition of the Canadian oil and gas assets of Miami Oil Company. These two acquisitions added significantly to Norcen's gas reserves and land holdings in western Canada.

Late in 1979 and early 1980, Norcen achieved a significant position in conventional heavy oil reserves through the acquisition of the Canadian assets of Tesoro Petroleum Corporation and the purchase of the common shares of Canadian Hidrogas Resources Ltd. The land interests and producing properties so acquired are located largely in eastern Alberta.

Heavy oil

An aggressive program to develop the newly acquired heavy oil lands has been planned for 1980. Expenditures for this program may amount to $17 million including the drilling of approximately 160 wells and significant expansion of thermal recovery operations in certain pools.

Revenue from Norcen's Athabasca oil sands lease increased sharply to $ 17.2 million from $7.3 million in the previous year, resulting largely from governmental agreement to increase the price received for synthetic crude production to world level oil prices. Governmental approval was received for expansion of plant capacity from 45,000 to 58,000 barrels per day. Norcen's revenue is derived from a royalty interest based principally on gross sales of synthetic crude from the plant. On completion of plant expansion in 1982, revenue from this source should be at least double the amount received in 1979.



Reserves

Estimated reserves, before royalties, of crude oil, synthetic crude and gas liquids at December 31, 1979 were 129.0 million barrels compared with 117.3 million barrels at the end of the previous year. Estimated reserves of natural gas, before royalties, were 1,144.9 billion cubic feet, compared with 1,019.9 billion cubic feet.

These figures do not include the company's share of reserves of natural gas in the Arctic, Beaufort Sea, the North Sea and oil sands reserves at Cold Lake, Alberta.

The increase in reserves is the result of exploration, field development, and acquisitions.

Oil gathering and transmission

An average of 73,900 barrels per day was transported through the company's systems in 1979, compared with 73,600 barrels per day in 1978. Proven and probable reserves supporting these systems are estimated at 650 million barrels.

Industrial gas system

The average daily throughput of the system located near Edmonton, Alberta, was 55 MMcf per day in 1979, down from 60 MMcf per day for the previous year, due to natural decline in field productivity.

Thirteen in-fill wells were drilled and compression was added in the Westlock Viking gas unit to increase gas sales to Edmonton area industries. In return, the industrial gas customers agreed to increase their purchase price by $0.10 per Mcf October 1, 1979 and each January 1 from 1980 to 1983 for gas deliveries of approximately 50 MMcf per day. Approximately 46% of the gas is produced from the company's wells and the balance is purchased.

Liquefied petroleum gas

Sales of LP gas totalled 78.9 million Imperial gallons, a small increase from the previous year.

Coal

Coal production during 1979 by the company's subsidiary, Coleman Collieries, Limited, was 1.0 million clean short tons, compared with 1.1 million clean short tons in the previous year.

The sales contract with Japanese steel mills terminates on March 31, 1980 and it is planned to shut down the Coleman operation this year.

Gas utilities

Income from Norcen's gas utilities increased to $ 16.3 million in 1979 from $ 14.9 million a year ago.

Gas sales volumes increased 2% to 274.5 Bcf due to the attachment of new customers and to higher sales to large industrial customers. Weather in Quebec and Ontario was warmer than that in 1978 and in Manitoba was considerably colder than in the previous year.

Sales and other revenues for 1979 were $679 million compared with $6 12 million in 1978.

As the result of increasing awareness of potential problems for future supplies by oil consumers, the gas utilities are experiencing a massive demand for conversion to natural gas by home owners and others using alternate fuels for heating.

Quebec

Sales increased to 92.8 Bcf from 89.3 Bcf as the result of aggressive marketing into the apartment dwelling and commercial sectors, as well as higher interruptible sales to large industrial customers.

In July, Gaz Métropolitain inc., issued and sold 4 million common shares of which 2 million were sold in a public offering, principally to residents of Quebec, and 2 million were sold at the same price to Northern and Central Gas Corporation Limited. This transaction achieved a two-fold objective of providing a greater equity ownership of Gaz Métropolitain by Quebec residents and a more balanced capital structure from which to proceed with the planned expansion of its operations.

Studies relating to expansion of natural gas service into areas of Quebec not presently served continued throughout 1979. A recommendation by the National Energy Board on the extension of the gas transmission line from Montreal to Quebec City is expected imminently.

Meanwhile, an application by Gaz Métropolitain for the exclusive right to distribute gas along the proposed extension of the transmission line is being heard by the Quebec Electricity and Gas Board.

Ontario

Sales were 123.2 Bcf compared with 120.7 Bcf in 1978. Higher interruptible sales to existing customers and sales to new customers were offset in part by a reduction in firm sales to one industrial customer whose plant was shut down earlier in the year due to labour problems.

Extension of the system to Espanola was completed and commenced operations in 1979, and customers will continue to be added in this area in 1980.

Manitoba

Sales increased to 53.8 Bcf from 51.0 Bcf in 1978 due to a combination of colder weather and new customers, principally in the residential and commercial sectors.

Extension of the gas distribution system to four municipalities adjacent to Winnipeg was completed late in 1979 and attachment of customers in those areas exceeds expectations.

Regulation

The regulatory authorities in Quebec, Ontario and Manitoba approved rate adjustments to recover the higher cost of gas which became effective August 1, 1979.

The following table summarizes rates of return approved by the regulatory authorities in 1979:

	Allowed rate of return		
	on rate base %	on common equity %	Test year
Gaz Métropolitain	10.90	17.0	1978
Northern and Central Gas	10.47	14.1	1977
Greater Winnipeg Gas	10.89	14.1	1978

Following completion of the current rate design hearing, Northern and Central Gas will file an application to increase rates to recover higher capital and other costs incurred since the last test year.

Gaz Métropolitain will commence a hearing in late February on its application for an interim rate increase to recover higher operating and financial costs.

Gas supply

Higher levels of exploration activity in the western provinces over the last several years have resulted in the establishment of significant additional natural gas reserves. In 1979 the National Energy Board determined that Canada's natural gas reserves were of sufficient magnitude not only to accommodate Canada's own requirements in existing and expansion markets, but also to permit a higher level of exports. This situation has resulted in an increasing awareness by the Canadian public that natural gas is the preferred fuel for heating requirements.

Total contracted gas supply in 1979 was 865 MMcf per day compared with 883 MMcf per day last year.

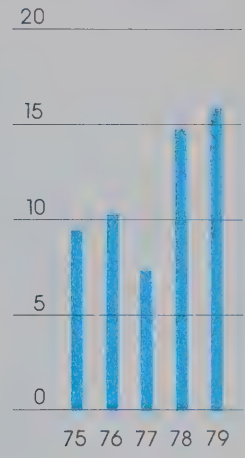
Capital expenditures

Capital expenditures in 1979 were $42.0 million compared with $29.2 million in 1978. Expenditures for 1980 are projected at $60 million, including $30 million for new business, including conversions to natural gas.

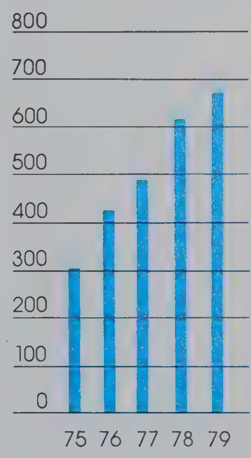
Sale of subsidiary

Columbia Natural Gas Ltd., serving 10,000 customers in the Cranbrook area of British Columbia, was sold in 1979.

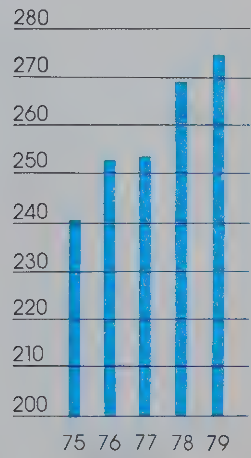
Gas utilities income
(millions of dollars)



Gas utilities sales
(millions of dollars)

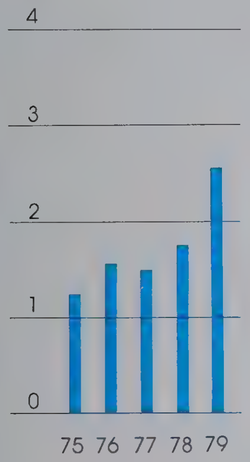


Gas sales
(billions of cubic feet)

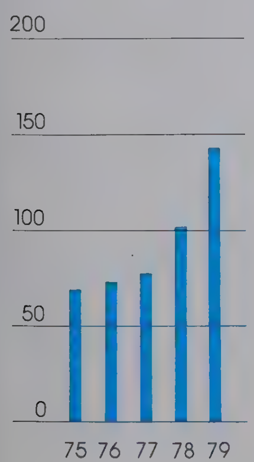


Financial review

Net income per common share
(dollars)



Funds from operations
(millions of dollars)



Consolidated earnings and per share results

Income applicable to common shares for 1979 totalled $63.1 million, 48% above $42.5 million for 1978. Return on average common share equity was 23.7% in 1979 and 19.3% in 1978. Per share amounts are shown in the table below. The quarterly dividend on common shares was increased from 18 cents to 20 cents per share beginning with the September 1979 payment, raising the annual rate to 80 cents per share.

Per common share (dollars)	1979	1978
Income	$ 2.70	$ 1.86
Dividends	0.76	0.72
Market price – high	34.00	19.50
– low	16.50	14.63
Income contributions (millions of dollars)		
Natural resources	$ 50.6	$ 28.9
Gas utilities	16.3	14.9
	$ 66.9	$ 43.8

Natural resource income increased by $21.7 million as the result of higher production of crude oil, gas liquids and natural gas, higher prices at the wellhead for both crude oil and natural gas, and significantly increased royalty income from Norcen's Athabasca oil sands lease.

Income from the gas utilities increased by $1.4 million due to attachment of additional customers, the effect of rate increases in 1978 and early 1979, and colder weather in Manitoba.

Changes in financial position

Total funds available in 1979 increased by $125.7 million due to higher cash flow from operations and to the issue of new equity capital (a convertible preference share issue by Norcen and a common share issue by Gaz Métropolitain.)

Total funds applied rose $131.8 million, mainly reflecting higher level of capital spending and acquisitions of oil and gas assets.

Changes in financial position (millions of dollars)	1979	1978
Funds available		
Cash flow from operations	$ 145.8	$100.5
Issue of equity capital	118.4	0.6
Issue of debt capital		20.0
Increase in demand bank credits	3.4	26.6
Other	6.6	0.8
	$274.2	$148.5
Funds applied		
Capital spending	$ 199.0	$ 91.6
Reduction of long-term debt	27.2	30.8
Investments	15.9	
Dividends	26.5	22.2
Other	11.3	3.6
	$279.9	$148.2
Increase (decrease) in funds	$ (5.7)	$ 0.3

Capital spending

(millions of dollars)	1979	1978
Natural resources		
Canada	$152.4	$ 56.2
Foreign	4.6	6.2
	157.0	62.4
Gas utilities		
Quebec	25.1	16.0
Ontario	9.6	7.7
Manitoba	7.3	5.2
	42.0	29.2
	$199.0	$ 91.6

Capital spending of the natural resources in 1979 included acquisition of Canadian assets from Shenandoah Oil Corporation, Miami Oil Company and Tesoro Petroleum Corporation totalling $85.7 million.

Capital spending for 1980 is estimated at $ 173 million; $113 million for oil and gas exploration and development, and $60 million for the gas utilities.

In addition, Norcen will spend $31 million to complete the acquisition of shares of Canadian Hidrogas Resources Ltd., in which Norcen had invested $15.7 million in 1979.

Changes in capitalization

As the result of the successful public offerings of $110 million convertible preference shares by Norcen and of 2 million common shares by Gaz Métropolitain and the application of the proceeds to reduce short-term debt, equity capital now exceeds combined short and long-term debt in Norcen's total capitalization.

Virtually all the holders of the previously outstanding convertible preference shares exercised their rights to convert into Norcen common shares prior to the date set for redemption of the preference shares. At the end of 1979 there were 24.1 million common shares outstanding compared with 22.9 million at the end of 1978.

Historical accounting and inflation

All financial statements and other financial data appearing in this annual report are presented on an historic basis; that is, where applicable, yesterday's dollars have been combined and compared with today's dollars without giving effect to the change in the purchasing value of the dollar over a period of time, such change being due primarily to the impact of inflation.

Debate in Canada and elsewhere has taken place both within and without the accounting profession and financial community over a number of decades on the merits, or otherwise, of continuing to report financial data on an historic basis. Such debate has been most intense and most publicized in times of relatively high inflationary pressures. Advocates of change have advanced a number of differing methods to replace historic data, including "current value" and "replacement cost" accounting methods. More recently, authorities in the United States have proposed the adoption of "reserve recognition accounting" for companies engaged in the oil and gas industry.

The adoption of any one of the aforementioned alternatives to historic cost financial presentation involves the application of highly subjective or arbitrary factors to historic data with the result that such presentation tends to be less meaningful and more judgemental than the historic data which it replaces.

Norcen believes that in presenting past and present financial data the most informative data reporting method remains the historic basis, which continues to conform with generally accepted accounting principles, and which is well accepted and understood by the financial community.

However, Norcen believes that in assessing future financial prospects of the business it can be useful to include supplemental data on a non-historic basis.

Norcen's operations comprise the natural resource division – primarily oil and gas exploration, development, and production – and the regulated gas utility operations.

Natural resources

Oil and gas properties

The future value of established reserves of oil and natural gas and related production equipment, and of exploratory land holdings, is dependent on many significant factors including success from future exploration activities, technological advances, future wellhead prices, operating expenses, and costs of money. Natural resource properties and production equipment are carried in the accounts at December 31, 1979 at a net book value of $424.2 million which includes costs of acquisition, exploration and development. Norcen believes that it is appropriate to consider also the present value of presently discovered reserves resulting from these costs.

Independent reservoir evaluators were engaged to calculate the present value of estimated future net revenues from established oil and natural gas reserves, before income taxes, and discounted to present value at 10% per annum. In calculating such value, prices and costs in effect at January 1, 1980 were assumed to continue for all future periods and provision was made for estimated future development expenditures that will be required to produce the estimated reserves.

Such value was calculated to be $906.7 million from proven reserves only. No values were assigned either to probable additional reserves or to unexplored or undeveloped properties. This value should not be viewed as the amount which might be realized in a sale of the reserves in place, nor as the amount which will be ultimately realized from production from the properties.

Other

Pipelines, processing plants and propane marketing equipment which are carried in the accounts at a net book value at December 31, 1979 of $16.5 million are estimated to have a replacement value at the same date of $35.8 million.

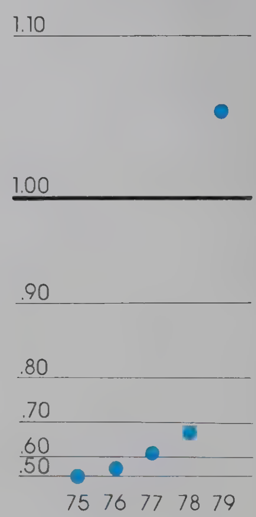
Gas utilities

Properties, plant and equipment of the gas utilities are carried in the accounts at a net book value at December 31, 1979 of $461.8 million.

Replacement cost of such assets, determined by the use of widely used and accepted price indices, is estimated at the same date at $999.6 million.

Rate base, return on rate base and customer rates of the gas utilities are determined by the respective regulatory authorities by reference to historic costs of properties, plant and equipment and not on the basis of replacement cost. Replacement cost of such assets would be expected to be included for regulatory purposes only at such time as productive capacity is physically replaced.

Equity to debt ratio



Financial statements

ACCOUNTING POLICIES
Years ended December 31, 1979 and 1978

The principal accounting policies followed by Norcen and its subsidiaries are summarized here to facilitate a review of the consolidated financial statements contained in this report.

Principles of consolidation

The consolidated financial statements include the accounts of Norcen and all of its subsidiaries except Coleman Collieries Limited, an 80% owned subsidiary which has been accounted for on the basis set out in Note 10 to the consolidated financial statements. The companies' operations are organized into two classes of business which, together with the principal subsidiaries involved, percentage of voting securities owned, and jurisdiction of incorporation, are as follows:

	Percentage	Jurisdiction
Natural resources		
Prairie Oil Royalties Company, Ltd.	74	Saskatchewan
Norcen Pipelines Ltd.	99	Manitoba
Cigas Products Ltd.	100	Alberta
Gas utilities		
Northern and Central Gas Corporation Limited	100	Ontario
Gaz Métropolitain, inc.	73	Quebec
Greater Winnipeg Gas Company	99	Manitoba

The excess of acquisition costs over underlying value of net assets at date of purchase in respect of natural resource subsidiaries has been included in property costs and is being charged to income in a manner similar to the particular property costs. The excess costs in respect of gas utility subsidiaries are shown as "Intangible assets arising from acquisitions". These assets are not being amortized.

Foreign currency translation

Amounts in foreign currency have been translated to Canadian dollars on the following bases: current assets and current liabilities, at the rate of exchange as at the balance sheet date; properties, plant and equipment and related depreciation and depletion, at the rate of exchange at the date of acquisition; long-term debt, at the rate of exchange at the date the obligation was incurred; sales and other revenues and costs and expenses, at the average rate of exchange for the respective year.

Inventories

Gas in storage is carried at cost which includes transportation and storage. Supplies are carried at the lowest of historic cost, replacement cost, and net realizable value.

Properties, plant and equipment

Natural resources

Oil and gas properties, in accordance with the full cost method of accounting, include all expenditures related to the exploration and development of oil and gas reserves, whether or not potentially productive, together with the excess of acquisition cost over underlying value of net assets at date of purchase. These costs are depleted on the composite unit of production method, based on total estimated recoverable reserves.

Oil and gas production equipment and related facilities are depreciated over their estimated useful service life on the straight-line method at various rates, the application of which is equivalent to a composite rate of approximately 5.28% (5.32% in 1978).

Gas utilities

Properties, plant and equipment are carried at cost which includes direct costs, overhead attributable to construction and interest on funds used during construction.

Depreciation is provided on the straight-line method at rates approved by regulatory authorities. The application of such rates is equivalent to a composite rate of approximately 2.92% (2.88% in 1978).

Deferred charges

Costs of issuing long-term debt are deferred in the year incurred and amortized against income over the term of the applicable issue.

The gas utilities defer, in the year incurred, certain expenses which the regulatory authorities require or permit to be recovered from future revenues; such charges are being amortized over various time periods, not in excess of 20 years.

Regulation

Gas utilities rates and revenues are established following public hearings before the respective provincial and federal regulatory authorities. From time to time the authorities grant provisional rate increases which may be subject to refund to customers depending upon the decision of the authorities following a full public hearing. The companies believe that no such refunds will be required.

Income taxes

Natural resources

The companies follow the tax allocation method of accounting whereby provisions for income taxes are based on the income reported in the accounts. This method results in the provision of deferred income taxes to the extent that taxes currently payable have been reduced by claiming depletion and depreciation for income tax purposes in amounts differing from those reported in the accounts.

Gas utilities

The companies' rates and revenues, established for regulatory purposes, include recovery of only such income taxes as are currently payable. Accordingly, the companies provide for income taxes on this basis and do not provide for income taxes which may be payable in future years as a result of current differences in timing of deductions, principally in respect of depreciation and amortization, for financial reporting and income tax purposes. Such income taxes not provided and not recovered in revenues, before applicable minority interests, amounted to $6,500,000 in 1979, $7,000,000 in 1978 and $83,900,000 in total to December 31, 1979.

Pension plans

The companies have several pension plans covering most employees. Current costs are provided for, and funded, based on actuarial estimates. Unfunded liabilities for past service pension benefits, which are not material, are being funded and expensed over a maximum period of 15 years.

Earnings per common share

Earnings per common share have been calculated using the weighted monthly average number of common shares outstanding during the year (23,396,000 in 1979; 22,803,000 in 1978). Fully diluted earnings per common share assumes the exercise of all rights to acquire common shares which have a dilutive effect.

Consolidated statement of income

Years ended December 31, 1979 and 1978 (thousands of dollars)

		1979	1978
Sales and other revenues	Natural resources	$208,787	$163,052
	Gas utilities	678,549	612,169
		887,336	775,221
Costs and expenses	Gas purchases	562,078	509,494
	Production, operations and maintenance	120,276	101,237
	Depreciation and depletion	44,902	37,430
	Interest on long-term debt	39,672	41,788
	Other financial expense	7,945	4,704
	Income taxes – current	15,426	21,300
	– deferred	24,211	9,758
	Minority interests in subsidiaries	5,935	5,671
		820,445	731,382
Income before extraordinary items		66,891	43,839
Extraordinary items (Note 11)		1,754	
Net income		$ 65,137	$ 43,839
Dividends on preference shares		$ 3,808	$ 1,324
Income applicable to common shares			
	Before extraordinary items	$ 63,083	$ 42,515
	Including extraordinary items	$ 61,329	$ 42,515
Earnings per common share (dollars)			
	Before extraordinary items		
	Basic	$ 2.70	$ 1.86
	Fully diluted	$ 2.58	$ 1.82
	Including extraordinary items		
	Basic	$ 2.62	$ 1.86
	Fully diluted	$ 2.51	$ 1.82

Consolidated balance sheet

As at December 31, 1979 and 1978 (thousands of dollars)

Assets

		1979	1978
Current assets	Cash and deposits	$ 7,357	$ 5,571
	Accounts receivable and unbilled gas	127,401	114,868
	Inventory of gas in storage and supplies	32,616	28,811
	Total current assets	167,374	149,250
Investments, at cost less amounts written off (Note 2)		22,609	9,583
Properties, plant and equipment (Note 3)		902,455	756,105
Deferred charges (Note 4)		28,542	30,858
Intangible assets arising from acquisitions, at cost less amounts written off		32,688	35,820
		$1,153,668	$981,616

Liabilities

		1979	1978
Current liabilities	Accounts payable and accrued charges	$ 134,233	$ 107,164
	Income and other taxes	1,409	5,394
	Current maturities on long-term debt	23,285	22,511
	Current liabilities, excluding demand bank credits	158,927	135,069
	Demand bank credits (Note 5)	67,033	63,619
	Total current liabilities	225,960	198,688
Long-term debt (Note 6)		366,704	397,280
Provision for future costs on discontinued operations (Note 7)		1,089	9,405
	Total liabilities	593,753	605,373
Deferred income taxes		73,518	52,272
Minority interests in subsidiaries		79,310	68,892

Shareholders' equity

Capital stock (Note 8)

	Issued		1979	1978
		First preference shares		
	2,058	$1.06 cumulative, series A (2,783 in 1978)	52	70
	163,007	$1.50 cumulative, series B (200,977 in 1978)	4,075	5,024
		Junior preference shares		
		$1.50 cumulative convertible, first series (631,158 in 1978)		15,779
	2,161,150	$2.88 cumulative convertible, 1979 series	105,896	
	24,084,210	Common shares (22,902,981 in 1978)	159,743	140,271
Retained earnings			137,321	93,935
	Total shareholders' equity		407,087	255,079
			$1,153,668	$981,616

Approved by the Board

Director

Director

Consolidated statement of retained earnings

Years ended December 31, 1979 and 1978
(thousands of dollars)

	1979	1978
Balance at beginning of year	$ 93,935	$ 68,378
Net income	65,137	43,839
	159,072	112,217
Dividends		
First preference shares		
– series A	3	3
– series B	280	333
Junior preference shares		
– first series	631	988
– 1979 series	2,894	
Common shares	17,731	16,414
Other	212	544
	21,751	18,282
Balance at end of year	$137,321	$ 93,935

AUDITORS' REPORT

To the Shareholders of
Norcen Energy Resources Limited

We have examined the consolidated balance sheet of Norcen Energy Resources Limited as at December 31, 1979 and 1978 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
February 4, 1980

THORNE RIDDELL & CO.
Chartered Accountants

Consolidated statement of changes in financial position

Years ended December 31, 1979 and 1978
(thousands of dollars)

		1979	1978
Source of funds	From operations		
	– natural resources	$ 104,875	$ 62,603
	– gas utilities	40,916	37,921
		145,791	100,524
	Increase in demand bank credits, net	3,414	26,648
	Issue of long-term debt		20,000
	Proceeds on issue of preference shares	105,790	
	Proceeds on disposal of a subsidiary	4,065	
	Investments	2,570	728
	Issue of common shares by a subsidiary	10,516	
	Issue of common shares by the company	2,106	573
		274,252	148,473
Application of funds	Expenditures on properties, plant and equipment, net		
	– natural resources (Note 3)	156,986	62,366
	– gas utilities	41,981	29,231
		198,967	91,597
	Retirement of long-term debt	27,220	30,816
	Dividends		
	– common shares	17,731	16,414
	– preference shares	3,808	1,324
	– minority shareholders of subsidiaries	4,968	4,601
	Investments	15,925	
	Redemption of preference shares	1,284	690
	Current portion of provision for costs of discontinued operations	8,316	307
	Deferred charges and other	1,767	2,461
		279,986	148,210
Increase (decrease) in funds		(5,734)	263
Funds at beginning of year		14,181	13,918
Funds at end of year		$ 8,447	$ 14,181
Summary of funds	Current assets	$ 167,374	$ 149,250
	Current liabilities, excluding demand bank credits (Note 5)	158,927	135,069
	Funds at end of year	$ 8,447	$ 14,181

Notes to consolidated financial statements

Years ended December 31, 1979 and 1978
(Tabular amounts are in thousands of dollars)

1. Accounting policies

The information on pages 19 and 20 presents a summary of the principal accounting policies and is an integral part of these financial statements.

2. Investments

	1979	1978
Canadian Hidrogas Resources Ltd. — shares (a)	$15,696	
Investment in Coleman Collieries Limited (Note 10) — debentures	806	$1,778
Land held for resale, at estimated realizable value	2,496	2,303
Other investments, at cost	3,611	5,502
	$22,609	$9,583

(a) Norcen had acquired at December 31, 1979 1,012,672 shares at $15.50 per share pursuant to an offer made October 12, 1979 expiring January 23, 1980. As of February 4, 1980 Norcen had increased its holding to 2,969,377 shares representing 98.7% of the outstanding shares of this company and had moved to acquire remaining outstanding shares.

3. Properties, plant and equipment

	1979			1978
	Cost	Accumulated depreciation and depletion	Net	Net
Natural resources				
Properties	$ 498,846	$123,507	$375,339	$256,032
Production equipment	83,228	34,378	48,850	40,647
Pipelines and processing plants	30,845	24,718	6,127	6,684
Propane marketing equipment	17,662	7,332	10,330	9,115
	630,581	189,935	440,646	312,478
Gas utilities				
Gas storage	30,956	5,696	25,260	25,691
Gas distribution	467,153	69,683	397,470	381,952
Rental equipment	38,881	18,340	20,541	21,409
General and other plant	25,688	7,150	18,538	14,575
	562,678	100,869	461,809	443,627
	$1,193,259	$290,804	$902,455	$756,105

Expenditures on properties, plant and equipment include $96,367,000 in 1979 ($11,172,000 in 1978) for the acquisition of oil and gas properties and related equipment.

4. Deferred charges

	Basis or period of amortization	Net book value December 31, 1979	1978
Natural resources			
Long-term debt issue expense	(a)	$ 2,000	$ 2,289
Gas utilities			
Long-term debt issue expense	(a)	5,198	5,949
Special gas costs	5 – 20 years	2,582	3,414
Discontinued operations			
– cost of plant	(b)	5,141	6,490
– deferred income taxes	(c)	8,572	8,572
Other		5,049	4,144
		26,542	28,569
		$28,542	$30,858

(a) amortized over term of applicable issue
(b) amortized over 5 years commencing in 1979 as approved by regulatory authority
(c) to be recovered out of future revenues, as approved by regulatory authority

5. Demand bank credits

The company and its consolidated subsidiaries have the following obligations under established bank lines of credit of $ 140,000,000 at December 31, 1979:

	Average % rate of interest at December 31, 1979	1979	1978
Commercial paper	14.0	$37,900	$34,925
Bankers' acceptances	14.1	20,000	20,000
Bank loans – unsecured	15.0	9,133	8,694
		$67,033	$63,619

While demand bank credits are by their terms due within one year and therefore classified as current liabilities, the companies have in the past retired, and anticipate in the future retiring, such obligations through the issue of long-term capital.

6. Long-term debt

	Due within one year	1979	1978
Natural resources			
5 7/8% first mortgage bonds, 1980	$ 720	$ 720	$ 2,128
9 3/4% – 11 1/4% secured debentures, 1983 - 1996		53,100	55,000
10 1/4% – 11 1/4% secured notes, 1988	6,994	60,999	67,224
Notes and purchase agreements	246	2,524	2,638
Convertible notes			1,153
	7,960	117,343	128,143
Gas utilities			
5 1/2% – 11 3/8% first mortgage bonds, 1979 - 1998	13,767	175,197	188,320
6% general mortgage bonds, 1988 - 1989	425	8,385	8,760
9 5/8% senior debentures, 1991		40,100	40,598
6% subordinated notes, 1987	456	3,284	3,709
5 1/2% – 11 1/4% debentures, 1979 - 1991	898	45,901	50,614
	15,546	272,867	292,001
	$23,506	390,210	420,144
Deduct			
Long-term debt held for sinking fund purposes		221	353
Current maturities on long-term debt		23,285	22,511
		23,506	22,864
		$366,704	$397,280

Securities issued in U.S. funds mature between 1981 and 1993 and are included above at their Canadian dollar equivalent ($ 115,027,000 in 1979 and $ 125,854,000 in 1978) at respective dates of issue except for current maturities which are translated at year-end rates. Repayment of such issues in their entirety at rates of exchange prevailing at year-end would result in additional obligations of $ 18,161,000 at December 31, 1979 ($22,420,000 at December 31, 1978).

Convertible notes which were payable to officers and employees were converted into common shares in 1979 at a price of $ 12.32 per share.

Long-term debt maturities and sinking fund requirements for each of the four years subsequent to 1980 are as follows:

1981	$23,987,000	1982	$34,736,000	1983	$42,767,000	1984	$27,553,000

7. Provision for future costs on discontinued operations

	1979	1978
Estimated loss resulting from guarantee of Coleman Collieries Limited bank indebtedness (Note 10)		$8,048
Closing costs of a discontinued operation excluding $346,000 ($403,000 in 1978) included in current liabilities	$ 1,089	1,357
	$ 1,089	$9,405

8. Capital stock

Authorized capital stock of the company at December 31, 1979 consisted of 1,300,000 first preference shares without par value issuable in series; 4,000,000 junior preference shares without par value issuable in series; and unlimited common shares without par value.

First preference shares, series A and series B (redeemable at the company's option at $27.50 and $26.50 per share respectively) have voting rights. Junior preference shares, first series were called for redemption in September 1979. In July 1979, the company issued at $50.00 per share 2,200,000 junior preference shares, 1979 series. This series is convertible to September 1, 1983 at $28.00 per common share and thereafter until September 1, 1987 at $31.00 per common share and is redeemable at the company's option after September 1, 1981 at a premium of $2.16 over issue price, such premium declining by 36 cents per annum until September 1, 1987 after which it is redeemable at issue price.

Changes in the number of shares outstanding are set out in the table below:

	Common shares	First preference shares		Junior preference shares	
		series A	series B	first series	1979 series
December 31, 1977	22,726,283	3,108	228,261	684,933	
Issued for cash					
Employee savings and investment plan	35,583				
Incentive stock option plan	1,936				
Converted – preference shares	84,024			(53,775)	
– convertible notes	55,155				
Redeemed		(325)	(27,284)		
December 31, 1978	22,902,981	2,783	200,977	631,158	
Issued for cash					
Preference shares					2,200,000
Employee savings and investment plan	42,198				
Incentive stock option plan	9,729				
Converted – preference shares	1,035,781			(618,476)	(38,850)
– convertible notes	93,521				
Redeemed		(725)	(37,970)	(12,682)	
December 31, 1979	24,084,210	2,058	163,007		2,161,150

Common shares may be issued as follows:	1979	1978
Conversion of junior preferences shares	3,859,196	986,184
Incentive stock option plan, of which market growth options were outstanding at December 31, 1979 on 125,000 shares (144,800 shares at December 31, 1978) exercisable at a price of $11.375 expiring in 1982 and on 240,500 shares exercisable at a price of $22.375 expiring in 1984	877,659	646,888
Conversion of convertible notes (Note 6)		93,521
Employee savings and investment plan	110,527	152,725
	4,847,382	1,879,318

9. Income taxes

Deferred income taxes result from timing differences in the recognition of income and expenses for income tax and financial statement purposes. The sources of these differences and the tax effect of each were as follows:

	1979	1978
Exploration and development expenditures and capital cost allowances deducted for income tax purposes in excess of depletion and depreciation	$25,488	$7,306
Revenue included in taxable income on the basis of instalment payments received in the year	(2,644)	(810)
Adjustments to eliminate effect of intercorporate transactions and differences in pre-acquisition deferred tax amounts	2,366	2,111
Other items	(999)	1,151
	$24,211*	$9,758*

*Excludes deferred income taxes of $6,500,000 in 1979 and $7,000,000 in 1978 applicable to the gas utility companies and not recorded as described in Note 1.

Total income tax expense was $39,637,000 in 1979 and $31,058,000 in 1978, effective rates of 35.3% and 38.5% on income before income taxes and minority interests respectively. Such income tax expense varies from the amounts that would be computed by applying the Canadian federal-provincial statutory rate of 46% to income before income taxes and minority interests for the following reasons:

	1979		1978	
		% of pretax income		% of pretax income
Computed income tax expense	$51,719	46.0	$37,043	46.0
Increase (decrease) in income taxes resulting from:				
Income tax depletion	(8,147)	(7.2)	(6,575)	(8.2)
Unrecorded gas utility deferred income taxes	(6,211)	(5.5)	(6,657)	(8.3)
Provincial income taxes in excess of federal abatement	1,733	1.5	860	1.1
Effect of differences in pre-acquisition deferred tax amounts	1,320	1.2	1,320	1.6
Non-deductible royalties, mineral taxes and other expense, less federal resource allowance and provincial rebates	864	0.8	3,160	3.9
Timing differences between accounting income and income for tax purposes	(382)	(0.4)	791	1.0
Other	(1,259)	(1.1)	1,116	1.4
	$39,637	35.3	$31,058	38.5

10. Unconsolidated subsidiary

In 1977, Coleman Collieries Limited made the decision to discontinue its operations at the end of its long-term sales contracts on March 31, 1980. All costs anticipated to be incurred by Coleman and the company on the discontinuance of Coleman's operations together with mining development costs incurred but not expected to be recovered from operations by March 31, 1980, were charged as an extraordinary item in the 1977 consolidated statement of income. The projected results of operations of Coleman to March 31, 1980 were considered in arriving at the amount of the extraordinary item. The effect of recording this extraordinary item was to write off the equity investment in Coleman and to provide $8,048,000 as the company's estimated loss as a result of guaranteeing the bank indebtedness to Coleman to a maximum of $20,000,000. This provision, which management feels is adequate, has been transferred to accounts payable and accrued charges in 1979 and will not be adjusted until such time as the amount of the loss can be determined.

The assets and operating results of Coleman have not been included in the consolidated balance sheet of the company as at December 31, 1979 and 1978 and Coleman's operating results since September 30, 1977 have not been included in the accounts of the company for the reasons stated above.

A condensed balance sheet of Coleman as at December 31, 1979 and 1978 is as follows:

	1979	1978
Current assets	$ 9,047	$ 9,822
Mining assets	10,960	16,562
Other assets	1,696	2,464
	$21,703	$28,848
Bank loans	$ 10,520	$ 13,820
Other current liabilities	12,616	13,301
Other liabilities	4,790	9,844
	27,926	36,965
Shareholders' equity (deficit)	(6,223)	(8,117)
	$21,703	$28,848

Summarized operating results for Coleman are as follows:

	Year ended December 31 1979	1978
Gross revenues	$51,828	$56,852
Costs and expenses	(a) 49,934	56,565
Income	$ 1,894	$ 287

(a) Includes $3,553,000 net adjustment of carried values and closure costs anticipated to result from cessation of operations in 1980.

11. Extraordinary items

	1979
Adjustment of carried value of investment in Gaz Métropolitain, inc. as a result of its issue of treasury shares	$(3,079)
Reduction in income taxes from application of a subsidiary's prior years' losses	1,325
	$(1,754)

12. Financial data by business segment

	Natural resources		Gas utilities		Total	
	1979	1978	1979	1978	1979	1978
Sales and other revenues	$208,787	$163,052	$678,549	$612,169	$887,336	$775,221
Operating and administrative expenses	77,787	67,048	604,567	543,683	682,354	610,731
Depreciation and depletion	29,635	23,013	15,267	14,417	44,902	37,430
Interest and other financial expense	18,877	18,346	28,740	28,146	47,617	46,492
Income taxes	31,301	25,124	8,336	5,934	39,637	31,058
Minority interests	621	580	5,314	5,091	5,935	5,671
	158,221	134,111	662,224	597,271	820,445	731,382
Income before extraordinary items	$ 50,566	$28,941	$ 16,325	$14,898	$66,891	$43,839
Identifiable assets at December 31	$469,573	$361,791	$684,095	$619,825	$1,153,668	$981,616

13. Quarterly financial data (unaudited)

1979	Quarter First	Second	Third	Fourth	Year
Sales and other revenues	$277,799	$186,627	$156,108	$266,802	$887,336
Income before income taxes*	44,705	15,369	7,059	39,395	106,528
Net income*	26,178	7,381	2,820	26,704	63,083
Net income* per share (dollars)	1.14	.32	.11	1.14	2.70

*Before extraordinary items

1978	First	Second	Third	Fourth	Year
Sales and other revenues	$244,294	$164,152	$134,139	$232,636	$775,221
Income (loss) before income taxes	38,238	13,654	(3,063)	24,744	73,573
Net income (loss)	23,208	6,401	(4,235)	17,141	42,515
Net income (loss) per share (dollars)	1.02	.28	(.19)	.75	1.86

The sum of quarterly earnings per share for 1979 does not equal earnings per share for the year due to the effect on average outstanding shares of the conversion of preference shares.

Earnings analysis

Natural resources
(thousands of dollars)

	Total		Oil and gas production	
	1979	1978	1979	1978
Sales and other revenues	$208,787	$ 163,052	$ 158,639	$ 118,612
Cost of gas	24,810	23,939		
Operating expenses	38,266	31,909	27,360	21,477
Depreciation and depletion	29,635	23,013	27,986	21,341
	92,711	78,861	55,346	42,818
Operating income	116,076	84,191	$ 103,293	$ 75,794
Administrative expenses	14,711	11,200		
Interest and other financial expenses	18,877	18,346		
Income taxes	31,301	25,124		
Minority interests	621	580		
	65,510	55,250		
Contribution to income	$ 50,566	$ 28,941		

Gas utilities
(thousand of dollars)

	Total		Ontario	
	1979	1978	1979	1978
Gas sales	$668,451	$601,797	$278,901	$250,046
Other revenues	10,098	10,372	3,827	4,122
	678,549	612,169	282,728	254,168
Cost of gas	537,268	485,555	241,858	217,321
Operating and administrative expenses	67,299	58,128	17,824	15,446
Depreciation	15,267	14,417	4,558	4,389
Income taxes	8,336	5,934	3,169	1,799
	628,170	564,034	267,409	238,955
Operating income	50,379	48,135	15,319	15,213
Interest and other financial expenses	28,740	28,146	9,223	8,820
Minority interests	5,314	5,091	1,545	2,052
Contribution to income	$ 16,325	$ 14,898	$ 4,551	$ 4,341
Properties, plant and equipment, net, at year end	$461,809	$443,627	$152,524	$147,608
Operating income as a percentage of properties, plant and equipment at year end	10.9%	10.9%	10.0%	10.3%
Gas sales volumes (MMcf)	274,470	269,081	123,246	120,685
Degree day deficiencies – actual			5,540	5,817
– normal			5,459	5,459

Industrial gas system		Liquefied petroleum gas		Oil pipelines and other	
1979	1978	1979	1978	1979	1978
$7,634	$7,276	$34,789	$31,908	$7,725	$5,256
4,257	3,569	20,553	20,370		
1,073	1,266	8,211	7,779	1,622	1,387
401	401	897	906	351	365
5,731	5,236	29,661	29,055	1,973	1,752
$1,903	$2,040	$ 5,128	$ 2,853	$5,752	$3,504

Oil and gas production revenues	1979	1978
Crude oil	$ 81,925	$ 60,727
Natural gas liquids	8,688	7,319
Natural gas	67,099	50,263
Sulphur	927	303
	$ 158,639	$ 118,612

Quebec		Manitoba		Other	
1979	1978	1979	1978	1979	1978
$255,800	$227,039	$ 125,533	$ 110,250	$8,217	$ 14,462
4,023	4,020	2,224	2,165	24	65
259,823	231,059	127,757	112,415	8,241	14,527
195,166	173,027	93,565	83,496	6,679	11,711
32,757	27,771	15,924	13,607	794	1,304
7,607	6,895	2,981	2,899	121	234
		5,008	3,788	159	347
235,530	207,693	117,478	103,790	7,753	13,596
24,293	23,366	10,279	8,625	488	931
15,109	14,728	4,255	4,244	153	354
3,754	3,028	15	11		
$ 5,430	$ 5,610	$ 6,009	$ 4,370	$ 335	$ 577
$227,897	$210,517	$ 81,388	$ 77,203		$ 8,299
10.7%	11.1%	12.6%	11.2%		11.2%
92,834	89,265	53,796	51,022	4,594	8,109
4,470	4,930	6,421	6,170	4,700	4,858
4,470	4,470	5,960	5,960	4,560	4,500

Eight-year summary

Financial

	1979	1978	1977	1976	1975	1974	1973	1972
Income (millions of dollars)								
Sales and other revenues								
Natural resources	$208.8	163.0	154.0	134.2	120.6	80.9	59.0	47.5
Gas utilities	678.5	612.2	492.6	425.1	302.0	220.3	174.9	160.8
	887.3	775.2	646.6	559.3	422.6	301.2	233.9	208.3
Costs and expenses								
Gas purchases	562.1	509.5	414.9	350.8	234.7	158.1	114.0	100.3
Production and operations	120.2	101.3	89.8	79.8	68.1	52.2	45.4	41.5
Depreciation and depletion	44.9	37.4	34.5	32.2	30.1	22.0	20.4	18.3
Interest	47.7	46.5	45.6	43.9	38.1	27.8	25.3	23.7
Income taxes	39.6	31.0	24.9	14.6	18.2	12.6	6.9	5.8
Minority interests	5.9	5.7	1.8	3.1	2.5	2.9	2.2	2.0
	820.4	731.4	611.5	524.4	391.7	275.6	214.2	191.6
Income								
Natural resources	50.6	28.9	27.9	24.2	21.5	13.0	10.2	6.5
Gas utilities	16.3	14.9	7.2	10.7	9.4	12.6	9.5	10.2
	66.9	43.8	35.1	34.9	30.9	25.6	19.7	16.7
Dividends on preference shares	3.8	1.3	2.8	3.9	4.1	4.1	4.2	3.2
Income applicable to common shares	$ 63.1	42.5	32.3	31.0	26.8	21.5	15.5	13.5
Cash flow from operations (millions of dollars)								
Natural resources	$104.9	62.6	53.3	44.0	40.9	31.5	25.5	19.5
Gas utilities	40.9	37.9	25.0	29.4	27.0	29.9	27.8	25.7
	$145.8	100.5	78.3	73.4	67.9	61.4	53.3	45.2
Capital expenditures (millions of dollars)								
Natural resources	$157.0	62.4	34.3	22.8	129.1	33.6	20.6	16.1
Gas utilities	42.0	29.2	26.3	24.2	35.6	36.2	20.4	29.3
	$199.0	91.6	60.6	47.0	164.7	69.8	41.0	45.4
Capitalization (millions of dollars)								
Short-term debt	$ 67.0	63.6	37.0	49.6	69.5	37.6	8.0	6.3
Long-term debt	366.7	397.3	408.8	439.7	427.7	337.1	348.6	336.3
Deferred income taxes	73.5	52.2	42.5	42.1	41.2	41.5	33.9	26.2
Minority interests	79.3	68.9	68.0	34.6	34.9	34.8	31.3	32.7
Shareholders' equity	407.1	255.1	229.0	245.5	225.1	216.0	204.1	201.0
	$993.6	837.1	785.3	811.5	798.4	667.0	625.9	602.5
Common shares								
Average number outstanding (millions)	23.4	22.8	21.3	19.6	19.4	19.4	19.3	19.1
Earnings per share (dollars)	$ 2.70	1.86	1.52	1.58	1.38	1.11	0.80	0.71
Dividends per share (dollars)	$ 0.76	0.72	0.72	0.68	0.68	0.60	0.60	0.60
Market price (dollars)								
high	$34.00	19.50	19.13	13.75	10.38	13.13	12.50	15.25
low	$16.50	14.63	10.50	9.75	8.75	7.25	9.00	11.25
close	$31.88	18.00	19.00	11.88	10.00	8.50	10.88	12.00

Operating

		1979	1978	1977	1976	1975	1974	1973	1972
Natural resources									
Production									
Crude oil, synthetic crude oil and gas liquids	000 bbls/day	26.0	23.2	23.7	23.3	25.8	17.1	16.7	11.6
Natural gas	MMcf/day	169.0	160.0	162.0	166.0	177.0	134.0	128.0	99.0
Sulphur	000 long tons	36.8	20.2	21.6	15.1	23.3	19.3	17.8	14.7
Gas gathering and transmission sales	MMcf/day	55.0	60.0	65.0	76.0	92.0	143.0	146.0	139.0
Oil gathering and transmission throughput	000 bbls/day	73.9	73.6	80.5	83.0	81.4	98.5	110.8	113.4
Liquefied petroleum gas sales	000,000 imp. gals	78.9	78.5	111.6	123.1	110.4	94.8	95.9	88.4
Reserves									
Oil and gas liquids	000,000 bbls	129.0	117.3	109.8	118.2	130.7	81.3	79.2	70.2
Natural gas	Bcf	1,144.9	1,019.9	1,016.2	1,075.4	1,152.8	746.9	773.5	582.2
Sulphur	000 long tons	540.0	567.7	498.0	519.6	543.6	305.7	252.0	227.0
Oil and gas land holdings	000,000 gross acres	40.5	36.8	28.5	29.1	31.6	30.0	23.4	20.1
	000,000 net acres	8.8	8.9	9.3	10.5	11.9	12.3	12.0	11.0
Gas utilities									
Gas sales	Bcf								
Industrial – firm		98.2	109.2	108.5	106.6	104.9	102.6	90.8	84.9
– interruptible		78.0	62.0	56.1	52.0	43.4	45.6	48.2	41.3
Commercial		47.9	46.5	41.2	42.2	43.1	42.2	33.8	33.6
Residential		50.4	51.4	48.9	52.5	49.6	49.2	45.4	48.5
		274.5	269.1	254.7	253.3	241.0	239.6	218.2	208.3
Customers at year-end	000	416.0	420.2	423.3	424.6	422.8	419.3	406.8	403.5
Employees at year-end									
Natural resources		1,259	1,193	1,153	1,300	1,100	1,133	1,137	1,087
Gas utilities		1,952	1,975	2,100	2,000	2,100	1,980	1,955	1,968
		3,211	3,168	3,253	3,300	3,200	3,113	3,092	3,055
Miles of pipelines									
Natural resources		937	1,112	1,111	1,110	1,109	1,103	1,107	1,100
Gas utilities		5,658	5,864	5,833	5,755	5,683	5,218	5,144	5,053
		6,595	6,976	6,944	6,865	6,792	6,321	6,251	6,153

Corporate information

Directors

*Edward G. Battle
Toronto, Ontario
President of the Company

*Edmund C. Bovey, C.M.
Toronto, Ontario
Chairman of the Board

*E. Jacques Courtois, Q.C.
Montreal, Quebec
Partner with Courtois,
Clarkson, Parsons & Tétrault,
Barristers & Solicitors

J. Ian Crookston
Toronto, Ontario
Financial Consultant

Robert Després, O.C.
Quebec City, Quebec
President and Chief Executive Officer
Netcom Inc.

*Edward A. Galvin
Calgary, Alberta
President, Poco Petroleums Ltd.

*Frederick A. M. Huycke, Q.C.
Toronto, Ontario
Partner with Osler,
Hoskin & Harcourt
Barristers & Solicitors

†Raymond Lavoie
Montreal, Quebec
Vice-Chairman, President and
Chief Executive Officer,
Crédit Foncier Franco-Canadien

A. Searle Leach, O.C.
Winnipeg, Manitoba
Honorary Chairman
Federal Industries Ltd.

†Richey B. Love, Q.C.
Calgary, Alberta
Partner with Macleod Dixon
Barristers & Solicitors

Henry S. Romaine
New York, New York
Executive Vice-President
The Mutual Life Insurance
Company of New York

Barbara J. Sparrow
Calgary, Alberta
President,
Country Club Casuals
Ent. Ltd.

William I. M. Turner, Jr.
Montreal, Quebec
President and Chief Executive Officer
Consolidated-Bathurst Inc.

William O. Twaits, C.C.
Toronto, Ontario
Director of various companies

*John R. Yarnell
Toronto, Ontario
President
Yarnell Companies Limited

*†Adam H. Zimmerman
Toronto, Ontario
Executive Vice-President
Noranda Mines Limited

*Member of the Executive Committee

†Member of the Audit Committee

Officers

Edmund C. Bovey
Chairman of the Board

Edward G. Battle
President

Donald D. Barkwell
Senior Vice-President,
Natural Resources

Jean-J. Leroux
Senior Vice-President,
Utilities

Barry D. Cochrane
Vice-President,
Corporate Planning

William C. Hennenfent
Vice-President,
Production

Peter Kaye
Vice-President,
Exploration

William T. Kilbourne
Vice-President,
Administration and Secretary

Wilfrid A. Loucks
Vice-President,
Minerals

Paul H. Palmer
Vice-President,
Comptroller

Timothy G. Sheeres
Vice-President,
Finance

Arthur L. Wood
Vice-President,
Heavy Oil

Alick S. G. Duguid
Treasurer

Russell G. Rennie
Assistant Secretary

Laurence A. Sills
Assistant Secretary

A. Kenneth Davies
Assistant Treasurer

Mart Pedel
Assistant Treasurer

Transfer agents and registrars

COMMON SHARES

National Trust Company, Limited
Toronto, Calgary, Montreal,
Winnipeg & Vancouver

Canada Permanent Trust Company
Regina
Morgan Guaranty Trust Company of
New York, New York

PREFERENCE SHARES (All Classes)

National Trust Company, Limited
Toronto, Calgary, Montreal,
Winnipeg & Vancouver
Canada Permanent Trust Company
Regina

Listings and symbols

Toronto and Montreal Stock Exchanges

Common Shares	NCN
First Preference A	NCNPrA
First Preference B	NCNPrB
Junior Preference 1979 Series	NCNPrD

Trustees

9¾% Secured Debentures due
April 15, 1983
Montreal Trust Company
Toronto

10¼% Secured Notes due Dec. 31, 1988
The Royal Trust Company
Toronto

11¼% Secured Notes due Dec. 31, 1988
The Royal Trust Company
Toronto

11¼% Secured Debentures due
Aug. 15, 1996
National Trust Company, Limited
Toronto

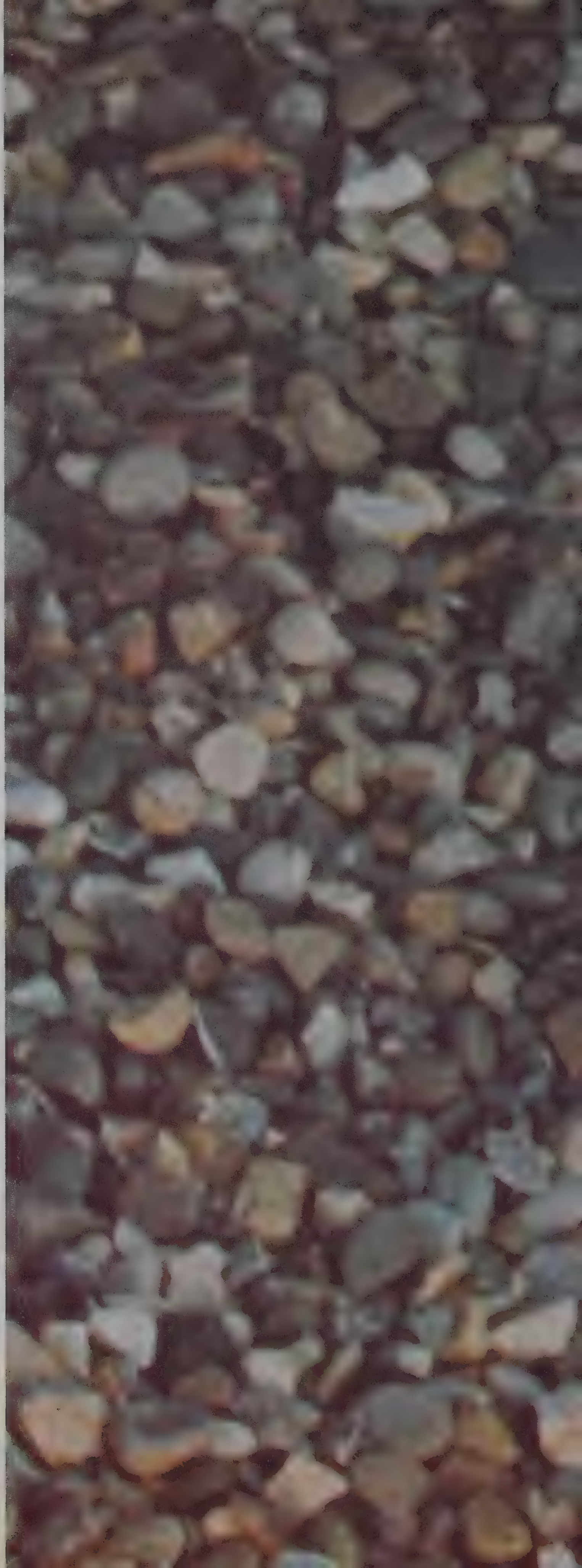
Auditors

Thorne Riddell
Chartered Accountants

Distribution of common shares

December 31, 1979

	Shareholders No.	Shareholders %	Shares No. (000)	Shares %
Alberta	2,651	9.22	1,019.2	4.23
British Columbia	3,548	12.33	1,193.1	4.96
Manitoba	1,229	4.27	1,507.8	6.26
New Brunswick	334	1.16	92.0	.38
Newfoundland	68	.24	18.3	.08
N.W.T. and Yukon	10	.03	1.8	.01
Nova Scotia	697	2.42	345.9	1.44
Ontario	11,364	39.50	12,609.3	52.35
Prince Edward Island	73	.25	24.8	.10
Quebec	3,283	11.41	5,240.6	21.76
Saskatchewan	643	2.24	130.3	.54
Canadian	23,900	83.07	22,183.1	92.11
U.S.A.	4,692	16.31	1,697.2	7.05
U.K.	88	.31	78.2	.32
Other Foreign	89	.31	125.7	.52
	28,769	100.00	24,084.2	100.00



10K Report

A copy of the company's 10-K report filed with the United States Securities and Exchange Commission will be sent to any registered shareholder upon written request to the company Secretary.

Norcen
Energy Resources Limited

Offices

Executive & Registered
4600 Toronto-Dominion Centre
Toronto, Ontario M5K 1E5

NATURAL RESOURCES

Norcen Energy Resources Limited

Cigas Products Ltd.

Prairie Oil Royalties Company, Ltd.

Norcen Pipelines Ltd.
715-5th Avenue S.W.
Calgary, Alberta T2P 2X7

Coleman Collieries Ltd.
Coleman, Alberta T0K 0M0

GAS UTILITIES

Northern and Central Gas Corporation Limited
245 Yorkland Boulevard
Willowdale, Ontario M2J 1R1

Gaz Métropolitain, inc.
1155 Dorchester Boulevard
Montreal, Quebec H3B 3S7

Greater Winnipeg Gas Company
265 Notre Dame Avenue
Winnipeg, Manitoba R3B 1N9

Norcen
Annual Report 1979

development wells, resulting in 26 oil and 58 gas completions. The more important oil completions include 2 additional Nisku discoveries in the West Pembina area of central Alberta. One of the wells, Chevron NorcenPL West Pembina 11-11-49-12-W5M, has 98 metres of net Nisku pay and is currently producing crude oil at the maximum limit of 313 cubic metres (1,970 barrels) per day. The second well, NorcenPL West Pembina A7-12-49-13-W5M, has 68 metres of net pay and currently on an extended production test is flowing light gravity crude at a rate of approximately 400 cubic metres (2,515 barrels) per day.

Acquisitions

Since the first of the year Norcen completed the acquisition of a 50% interest in the Canadian oil and gas assets of Shenandoah Oil Corporation for $23.7 million and acquired the Canadian oil and gas assets of Miami Oil Company for $31.9 million, adding significantly to Norcen's gas reserves and extensive land holdings, mainly in Alberta.

Uranium

The feasibility study of the Blizzard uranium property located near Kelowna, B.C. is now completed. A three member commission of the government of British Columbia is conducting a public enquiry into uranium exploration, mining and milling, to which Norcen presented a brief in June. Construction of the plant and the start of open pit development are anticipated within two years of obtaining all necessary government approvals. Norcen is the manager-operator of the joint venture group involved in this project and has a 36% interest in the property.

Gas Utilities

Income from the gas utilities improved over last year even though warmer weather prevailed in Quebec and a prolonged strike shut down the Inco plant at Sudbury, Ontario. Operations at Inco have now resumed and gas deliveries to the plant have been restored to normal levels.

Gas sales volumes in the first half of 1979 were 4,318 million cubic metres (152 billion cubic feet), an increase of 2% over the first half of 1978.

With the continuing improvement in natural gas reserves and supply, and with incentive pricing for gas now being negotiated, opportunities have been identified within each of Norcen's utility areas to develop increased sales volumes.

Negotiations are currently underway with TransCanada PipeLines regarding the building of a transmission line to Temiscaming, Quebec, to serve a large pulp and paper mill. An application has also been made for a franchise to serve the Town of Temiscaming.

In line with proposals to extend natural gas service east of Montreal, preliminary market studies have been carried out in areas not presently served by natural gas. Two applications for extension of the natural gas transmission system in Quebec will be heard by the National Energy Board in the fall of this year.

Norcen's gas utility operating in British Columbia, Columbia Natural Gas Limited, was sold for $5 million cash.

Financing

In July Norcen successfully sold a Canadian issue of 2.2 million $2.88 Convertible Junior Preference Shares, 1979 Series, at an issue price of $50 per share, convertible into common shares at $28 until 1983 and thereafter at $31 per common share until 1987. Proceeds from this $110 million financing have been used to reduce short-term borrowings by approximately $85 million, and the balance is being applied towards the completion of Norcen's 1979 capital expenditure programs.

Also in July, Gaz Métropolitain, inc. issued 4 million common shares at $5.75 per share, of which 2 million shares were sold to the public and the balance to the parent company, Northern and Central Gas Corporation Limited, the wholly-owned subsidiary of Norcen. Proceeds of the issue have been used to retire Gaz Métropolitain's short-term debt.

The two financings have resulted in Norcen achieving its stated objective of reducing consolidated short and long-term debt to or below 50% of its total capitalization.

Outlook

With increased rates of production and higher prices for oil and natural gas and with improving gas utility sales, Norcen's earnings are expected to maintain their upward momentum for the remainder of the year.

E. C. Bovey   E. G. Battle

Edmund C. Bovey
Chairman

Edward G. Battle
President

August 10, 1979

Norcen
Energy Resources Limited

Executive and Registered Office
4600 Toronto-Dominion Centre
Toronto, Ontario M5K 1E5

Calgary Office
715-5th Avenue S.W.
Calgary, Alberta T2P 2X7

Northern and Central Gas Corporation Limited
245 Yorkland Boulevard
Willowdale, Ontario M2J 1R1

Gaz Métropolitain, inc.
1155 Dorchester Boulevard West
Montreal, Quebec H3B 3S7

Greater Winnipeg Gas Company
265 Notre Dame Avenue
Winnipeg, Manitoba R3B 1N9

Cigas Products Ltd.
715-5th Avenue S.W.
Calgary, Alberta T2P 2X8

Coleman Collieries Limited
Coleman, Alberta T0K 0M0

Norcen
Energy Resources Limited

Interim Report
June 30, 1979

Comparative Statement of Income

(unaudited)
(thousands of dollars)

	6 Months Ended June 30 1979	6 Months Ended June 30 1978	12 Months Ended June 30 1979	12 Months Ended June 30 1978
Sales and other revenues	$464,426	$408,446	$831,201	$719,854
Costs and expenses				
Gas purchases	295,742	263,087	542,149	468,061
Production, operations and maintenance	59,455	48,814	111,878	95,080
Depreciation and depletion	21,641	18,613	40,458	35,933
Interest on long-term debt	20,123	20,905	41,006	41,828
Other financial expense	4,188	969	7,923	3,200
Income taxes — current	19,411	17,414	23,297	24,232
— deferred	6,515	4,869	11,404	7,253
Minority interests in subsidiaries	3,203	3,497	5,377	4,087
	430,278	378,168	783,492	679,674
Income from continuing operations	34,148	30,278	47,709	40,180
Share of loss of discontinued operations before extraordinary items				(474)
Income before extraordinary items	34,148	30,278	47,709	39,706
Extraordinary items	1,305 (a)		1,305 (a)	(32,405)
Consolidated net income	$ 35,453	$ 30,278	$ 49,014	$ 7,301
Dividends on preference shares	$ 589	$ 669	$ 1,244	$ 1,575
Income applicable to common shares				
From continuing operations before extraordinary items	$ 33,559	$ 29,609	$ 46,465	$ 38,605
Including discontinued operations and extraordinary items	$ 34,864	$ 29,609	$ 47,770	$ 5,726
Earnings per common share				
From continuing operations before extraordinary items				
Basic	$ 1.46	$ 1.30	$ 2.03	$ 1.71
Fully diluted	$ 1.41	$ 1.26	$ 1.97	$ 1.66
Including discontinued operations and extraordinary items				
Basic	$ 1.51	$ 1.30	$ 2.08	$ .25
Fully diluted	$ 1.47	$ 1.26	$ 2.03	$ .25

(a) Reduction in income taxes from application of a subsidiary's prior years' losses

Comparative Statement of Changes in Financial Position

(unaudited)
(thousands of dollars)

	6 Months Ended June 30 1979	6 Months Ended June 30 1978
Source of funds		
Operations		
From continuing operations	$ 34,148	$ 30,278
Charges not requiring funds	34,345	29,786
	68,493	60,064
Increase in demand bank credits, net	19,976	
Issue of long-term debt		20,000
Investments	1,455	367
Issue of common shares	1,443	311
Reduction in income taxes from application of a subsidiary's prior years' losses	1,305	
	92,672	80,742
Application of funds		
Expenditures on properties, plant and equipment, net		
— natural resources	82,509	26,674
— gas utilities	10,722	10,469
	93,231	37,143
Reduction in demand bank credits, net		23,465
Retirement of long-term debt	14,965	13,012
Dividends — common shares	8,292	8,202
— preference shares	589	669
— minority shareholders of subsidiaries	2,309	2,305
Redemption of preference shares	294	17
Deferred charges	502	2,211
Other, net	367	331
	120,549	87,355
Decrease in funds	27,877	6,613
Funds at beginning of period	14,181	13,918
Funds (deficiency) at end of period	$ (13,696)	$ 7,305
Summary of funds		
Current assets	$115,383	$115,744
Current liabilities, excluding demand bank credits	129,079	108,439
Funds (deficiency) at end of period	$ (13,696)	$ 7,305

Financial Performance

For the six months ended June 30, 1979 income applicable to common shares was $33.6 million, up 13.3% from $29.6 million for the first half of 1978. Basic earnings per common share were $1.46 compared with $1.30 in 1978; on a fully diluted basis earnings per common share were $1.41 and $1.26.

Natural resources contributed $17.3 million ($15.1 million in 1978) and gas utilities $16.8 million ($15.1 million in 1978) to Norcen's consolidated income. Sales and other revenues increased by 13.7% to $464.4 million from $408.4 million a year ago.

The average number of common shares outstanding was 23.0 million against 22.8 million in 1978.

Common Share Dividends

Norcen declared a third quarter dividend of 20¢ per common share payable September 1, 1979 to shareholders of record August 10, 1979, an increase of 2¢ per share over the 18¢ dividend paid in each of the first two quarters of this year.

Natural Resources

Production and prices

Gross production of oil and natural gas liquids averaged 4,100 cubic metres (25,800 barrels) daily, an increase of 12.2% over the first half of 1978. Gross natural gas production averaged 5,051 thousand cubic metres (179 Mmcf) daily, up 9.1% over the same period of 1978.

Average prices before royalties for oil and natural gas at the wellhead increased from $69.88 per cubic metre ($11.11 per barrel) and $46.14 per thousand cubic metres ($1.30 per Mcf) in the first half of 1978 to $77.36 per cubic metre ($12.30 per barrel) and $50.05 per thousand cubic metres ($1.41 per Mcf) in 1979.

An increase of $1 per barrel in the domestic price of crude oil came into effect on July 1, with a corresponding increase of 15¢ per Mcf in the Toronto city gate price of natural gas effective August 1, 1979. A further increase in the price of crude oil of $1 per barrel is scheduled for January 1, 1980. It is the expressed intention of both the federal and Alberta governments to bring the domestic price of Canadian crude oil to the world price level. The recent OPEC increases have brought this price to approximately U.S. $21 (Cdn. $24.70) per barrel, thus further widening the existing gap between Canadian and world prices.

Gas export

Gas export hearings are currently before the National Energy Board. The NEB report of February 1979 estimated the current surplus of gas available for export, in excess of domestic requirements, to be about 2 Tcf. Natural gas producers claim this figure is too low and export applications are considerably higher than the Board's estimate. Norcen has available substantial quantities of "shut-in" gas for increased export allowables. The current export price of U.S. $2.30 per Mcf will be raised to U.S. $2.80 effective August 11, 1979.

Synthetic crude oil

Early in the year Great Canadian Oil Sands (GCOS) received approval for an expansion of its existing synthetic crude oil production facilities from 45,000 to 58,000 barrels per day. Since the price for synthetic crude produced by GCOS has recently been set at the world price, royalties from Norcen lands being mined by GCOS should rise substantially in the coming years. Production at GCOS's Fort McMurray, Alberta plant has been interrupted recently, but full operations should be resumed before the end of August 1979. Norcen's revenues from this source in 1978 amounted to $7.3 million and are expected to be $13 million in 1979.

Exploration and development

In the first half of 1979 Norcen participated in the drilling of 91 exploratory and 26